



# Capital Communications Federal Credit Union

**Together. We can.<sup>SM</sup>**

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Mary Rupp  
Secretary of the Board  
NCUA  
1775 Duke Street  
Alexandria, Virginia 22314-3428

March 24, 2009

Dear Ms. Rupp:

I am responding on behalf of Capital Communications Federal Credit Union to the Advanced Notice of Proposed Rulemaking for Part 704 (ANPR) addressing the issue of corporate credit unions. The attached document outlines each of the significant points in the ANPR and the position we want you to understand from our perspective.

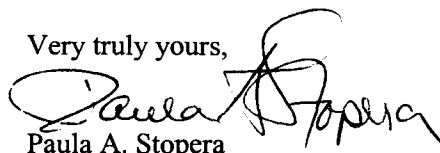
The current state of the corporate credit unions has caused tremendous financial strain on natural person credit unions by no fault of our own. The theory of "people helping people" is true to the credit union movement but our collective strategy should be to focus our attention on the 90 million members that use our services each and every day. Placing the burden of financial restoration on natural person credit unions limits our ability to continue meeting our basic mission of providing our members with unmatched service combined with competitively priced deposit and loan products. The adverse impact of the restoration of the NCUSIF on the net worth of our credit union has forced us to rethink our short term strategies to ensure adequate capital levels are maintained.

The most important issue that should be addressed is the basic structure of the corporate credit unions. There is great inefficiency in the system as it currently stands. It is our recommendation that the corporates continue to provide the basic services that are now provided to the natural person credit unions but it should be done in system that represent a consolidated corporate entity with divisional/regional offices. I envision a system similar to the Federal Home Loan Bank structure to be most efficient in meeting the needs of the natural person credit unions. Additionally, this structure provides the NCUA with a more efficient means of monitoring the system and trends of each regional office and the demands of the end users.

It is imperative that natural person credit unions have a viable correspondent system to rely upon for liquidity and other needs. I do not have the confidence in the corporate credit unions as they currently exist and have taken measures to diversify the risk at Capital Communications Federal Credit Union through membership in the FHLB and borrowing capacity through the Federal Reserve. We have never felt compelled to do this in our history. A consolidated corporate credit union system would be a strategic direction that would go a long way in re-establishing trust in the system that has be relied upon as the primary correspondent relationship for our credit union since inception.

I would like to thank you for providing me the opportunity to comment on the future direction of corporate credit unions. If, after your review, you have questions or comments please feel free to contact me for clarification.

Very truly yours,

A handwritten signature in black ink, appearing to read "Paula A. Stopera". The signature is fluid and cursive, with a large initial "P" and "S".

Paula A. Stopera  
President & CEO

**CAPITAL COMMUNICATIONS FEDERAL CREDIT UNION**  
**Response to NAFCU - ANPR on Corporate Credit Unions (CCUs)**

1. The NCUA is contemplating two alternatives regarding corporates' payment services function. One alternative is to establish two separate charters, one which would give corporates authority limited to operating a payment system and another which would allow corporates to engage in providing investments services. Do you believe that the NCUA should pursue the two separate charters system? Please explain.

The NCUA should not pursue two separate charter systems. CCUs have historically provided payment services quite effectively for its member credit unions and are an integral operational function of settling daily cash needs. The function of managing the liquidity by CCUs would be significantly hampered or impaired if the structure of payment services was separated from its overall operations.

From a credit union perspective, it is advantageous to seek a correspondent relationship that offers as many products and services needed to effectively and strategically manage its business. Multiple relations with different CCUs would be not effective or efficient. It could potentially increase the level of capital contributions required by credit unions to CU's with different charters offering the needed services.

The CCU pricing of some payment services to credit unions is at times cost prohibitive when evaluating new processes (i.e. remote image capturing). The fact that these services are being offered by every CCU independent of each other does not provide a means of minimizing costs through a system that optimizes the economies of scale. Greater collaboration is needed between CCUs to more effectively reach greater economies of scale. The Federal Reserve System is consolidating its payment services offices across the country in its effort to become more efficient through the use of technology. CCUs should be striving to provide a similar infrastructure from which to serve credit unions. If this process leads to consolidation of CCU's, it would ultimately lead to better pricing for credit unions and thus an opportunity to serve its individual members.

A separate charter does not necessarily ensure that liquidity needs of credit unions are met. Liquidity management at the corporate level should require greater regulatory scrutiny incorporating the risk exposure and ability for CCUs to meet the demands of the member credit unions. Additionally, a more comprehensive risk-based capital structure that includes not just assets but lines of business may also be an effective alternative.

If a separate charter is pursued or recommended by the NCUA, an alternative to consider would be to allow payment system processes to be handled through a co-operative/multi-owner CUSO. Competition already exist in the market place for payment services outside of CCUs so a credit union owned co-operative/multi-owner CUSO can compete with these companies to allow economies of scale and thus reducing the price for these services. Settlement of payment services can still be directed in accounts within the CCU structure. This would allow CCUs to focus on the liquidity needs of member credit unions.

2. Under the second alternative regarding corporates' payment services function, the NUCA would establish distinct capital requirements of payment systems risk and the risk of other corporate services, with a legal and operational firewall set up between payment system services and other services. Do you believe that this alternative is preferable? Please explain why or why not.

Distinct capital requirements should be considered for payment service functions as well as other functions offered by CCUs as a preferred alternative. Each function should be self-sustaining and meet profitability and capital preservation thresholds measured on a frequent and consistent basis.

3. The NCUA is assessing whether providing liquidity for the credit union system should remain a core function of the corporate system. Do you believe that corporates should continue to have this function? If yes, please explain what steps you believe are needed to strengthen this function.

CCUs should continue to retain their function as liquidity providers for credit unions. As stated previously, credit unions are best served with a correspondent relationship which offers the necessary products and services to effectively and efficiently address its business needs. Providing liquidity to credit unions is vital to efficient operations and ability for credit unions to strategically manage their balance sheets to optimize earnings and grow capital.

The expanded use of the Central Liquidity Fund (CLF) by both CCUs and credit unions should be a strategy considered by the NCUA. Setting aside regulatory restrictions on the use of the CLF (could be amended through appropriate legislation), CCUs should be able to have broad access the CLF to bolster its own liquidity needs and those of credit unions. Expanding the availability of CLF funding to credit unions would have a significant impact on the potential mitigation of interest rate risk in severe economic times as currently being experienced. Balance sheets are incurring the mismatch of short term member deposits with longer term member loans. There does not exist an opportunity to minimize the interest rate risk due to the excessive spreads in the credit markets. Exploring ways to offer CLF funds to both CCUs and credit unions should be a priority of the NCUA.

Greater emphasis should be placed on better modeling techniques and the resident expertise (system and personnel) in managing the projected liquidity demands of CCUs. The NCUA should establish appropriate review processes with accomplished professionals capable of assessing whether risk is properly projected and/or mitigated.

4. The ANPR states that the agency is considering removing corporates' ability to have national fields of membership. Do you believe that the option of having a national field of membership should be maintained? Please explain.

National field of membership has created a very competitive environment amongst CCUs. Credit unions are consistently solicited for their business lines requiring due diligence and evaluation to determine the best plan of action. As stated previously, consideration should be given to greater collaboration amongst CCUs to ensure the credit unions are receiving the best service at the best price regardless of geographic locations.

The NCUA must consider that any restrictions or changes to the field of membership may have an impact on credit unions' ability to have multiple and diverse sources of liquidity. Whatever action taken on FOM, consideration of the best alternatives to the credit unions must be considered a top priority.

The NCUA should strive towards a structure similar to the Federal Home Loan Bank system whereby a regional CCU could oversee the relationships with member credit unions within that region. The economies of scale would be realized at the CCU level if, and only if, the regional CCU's were consolidated into a central CCU.

5. Current regulations provide corporates expanded investment authority, which natural person credit unions do not have. Should corporates continue to have the expanded authorities? If so, please explain what modifications you think should be made to the procedures and qualification, including capital standards and/or reducing the authorities (for example, should the NCUA prohibit certain categories of investments, such as collateralized debt obligations (CDOs), net interest margin securities, and subprime and Alt-A asset backed securities?). If not, please explain your reasons in detail.

CCUs should continue to have expanded authority with restrictions. Investment strategies achieved through expanded authority by definition would add greater risk to the CCU balance sheet. It is imperative that the NCUA establish mechanisms to monitor and control the level of risk associated with each CCU investment portfolio and its overall impact on capital. A comprehensive risk-based capital structure combined with competent personnel and sophisticated modeling systems would be required for CCUs to be granted expanded authority. NCUA oversight of these criteria should be frequent (no less than annual) and consistent. NCUA findings should be disseminated to all member credit unions to ensure proper transparency of the management of CCUs.

6. As part of its comprehensive review of the system, the NCUA is looking at whether the current two-tiered system, consisting of the retail corporates that offer products and services to natural person credit unions and the wholesale corporate that services the retail corporates, is needed. Do you believe that the NCUA should change to the two-tiered system? If so, please explain what change(s) should be made.

The NCUA should change the two-tiered structure. Capital is being accumulated at both tiers and thus is inefficient. As stated previously, greater collaboration between CCUs is needed to more effectively and economically serve their credit union members. The two-tier structure is not conducive to needed collaboration. The risk in contracting to single capital structure may spur consolidation amongst CCUs. This issue may be advantageous as the combined entity would be larger and more financially viable to offer new and improved products and services to credit unions. The risk must be mitigated by the NCUA's oversight of the proposed consolidations to ensure that the consolidated CCU is, in fact, beneficial to the credit union members.

7. Corporates are required to maintain a four percent capital ratio. Do you believe that the ratio should be modified? Please explain why or why not?

CCUs capital requirements should be increased from its current level of four percent to at a minimum of 6% to be met over a reasonable period of time.

A preferred capital requirement should be risk-based and assure the member credit unions that the strategies of the CCU is within acceptable parameters as measured and established by the NCUA.

Higher levels of required capital may result in reducing the required levels of capital shares needed to be invested by member credit unions. Since these are normally very low yield shares, a reduction in the amount of capital would have a positive impact on earnings for credit unions.

8. Currently, core capital (i.e., "tier one capital") is defined as retained earnings plus paid-in capital. Should the agency establish a new capital ratio consisting only of core capital? If so, how should core capital be measured?

Core capital includes retained earnings and perpetual paid-in capital (versus term paid-in capital). Higher levels of core capital will most likely be mandated throughout the financial services industry resulting from reliance on taxpayer bailout. Requiring higher core capital in CCUs will be most beneficial in supporting strategies in: (1) balance sheet growth, (2) collaboration efforts, (3) consolidation amongst CCUs, and (4) greater capacity to weather significant downturns in economic cycles.

9. The ANPR also addresses various aspects of NCUA's regulations on membership capital for corporates. One aspect of the membership capital rule that NCUA is also looking at is whether to require that any withdrawal of membership capital be conditional on the corporate's ability to meet all applicable requirements following withdrawal. Do you believe that this would be a reasonable condition? Please explain in detail.

Conditional withdrawal of member capital is reasonable if, and only if, it is in combined with a reasonable timeframe in which the CCU must meet the member credit unions withdrawal request and still be in compliance with applicable requirements. Credit unions should be assured of their ability to access their investment in CCU even if over a period of time.

10. Should the NCUA pursue a risk-based regime for corporates? Please explain.

The NCUA should absolutely pursue a risk-based capital structure. A comprehensive risk-based structure would effectively manage capital positions of CCU's while still providing management the flexibility to pursue certain strategies considered to be effective for their respective member credit unions.

It is the goal and responsibility of the NCUA to ensure that the system is "repaired" and prevent history from repeating itself. Risk-based capital is the most practical means of governance by the NCUA as well as assessing risk by member credit unions.

Assets and liabilities (interest rate risk) as well as operational processes (payment systems) bear a level of risk to capital. All aspect of CCUs should be considered and weighted as part of a recommended risk-based capital plan.

Consideration should be given to a risk-based capital plan that considers significant changes in liquidity at CCUs based on seasonal demands of their member credit unions. CCUs that successfully manage these seasonal/cyclical demands will be able to effectively maintain required capital.

11. The ANPR identifies credit risk management as an issue area that may require revisions, including limiting the extent to which the corporates may rely on credit ratings provided by Nationally Recognized Statistical Rating Organizations. Do you believe that NCUA should alter the parameters for corporates' credit risk management? Please explain.

The NCUA should consider the following when establishing appropriate parameters for determining credit risk management:

- Require multiple sources for ratings for investment issues with a limit as to the lowest rating allowed.
- Require periodic third-party evaluation of investment securities for credit quality.
- Evaluate the need to examine and propose changes to the Nationally Recognized Statistical Rating Organizations (NRSRO) ensuring independence and rating consistency.
- Prohibit investment securities that possess significant risk based on collateral, historical asset performance or cash flow structure.
- Establish the need to solicit the expertise of third parties to determine the risk to CCU balance sheets on a frequent and consistent basis. Such analysis should become part of the routine reporting (Call report) to the NCUA.
- Establish diversification parameters for investment portfolios that restrict excessive holdings in a specific asset class or investment security issue.
- Require sensitivity testing of the balance sheet as well as specific investment classes through appropriate and state-of-the art modeling systems.

12. NCUA is considering re-instating a requirement that corporates perform net interest income modeling or stress testing, or instituting some form of mandatory modeling and testing of credit spread increases. Do you believe modeling or stress testing should be required? If so, please explain as specifically as possible.

Modeling and stress testing should be required for CCUs. Net interest income and net economic value should be forecasted using appropriate modeling techniques/systems and competent and training personnel. Modeling techniques/systems should be subjected to third-party review to ensure projections are reasonable.

13. The comprehensive evaluation of the corporate system includes issues related to corporate governance. NCUA is contemplating requiring minimum standards for directors, including that a director possess an appropriate level of experience and independence. Do you believe there should be such standards? Please explain.

Board members of CCUs as well as credit unions should bear a minimum qualification requirement to retain a seat on the Board. Continuing educational requirements are also appropriate for board members. Such a requirement would ensure the governing bodies would maintain appropriate and updated knowledge of challenges, opportunities and risks facing their respective credit unions and the industry as a whole.

Board members should be required to have a minimum level of formal educations (i.e. bachelor's degree) accompanied by years of experience in management positions. Continuing education requirements should be established and enforced for all seated board members

Additionally, boards should require formally approved succession plans.

Board composition should also be considered when considering the CCU governance. Member credit unions should be required to occupy a majority of the Board seats of a CCU. Minimum standards would consistently apply to these individuals including experience and formal education levels. The need for member credit union representation is obvious and should be considered by the NCUA.

14. NCUA is also considering imposing term limits on corporate directors. Do you support the imposition of term limits? If so, what terms should be imposed?

Term limits should be imposed on Board members with consideration to given to the longevity of a Board seat and its ability to effectively contribute to governance role. A term limit that is too short results in ineffective implementation of strategies while unlimited terms provides for a level of complacency. Staggered term limits (allowing 1 to 2 positions expire per two year basis) is also critical to the effectively governance of the CCUs.

Stringent ongoing education requirements may mitigate the need for term limits.

15. The ANPR also states that changes to corporate governance standards may include allowing compensation for corporate directors and requiring greater transparency for executive compensation. Do you believe directors should be compensated and greater transparency for executive compensation should be required? If you believe in requiring greater transparency for executive compensation, how do you think NCUA could achieve this goal?

Compensation of CCU Board members may strengthen the overall experience of individuals being considered for those positions but it goes against a basic premise of the credit union movement.

Greater transparency of executive compensation will create far greater problems than resolution of issues. The reporting of executive compensation will impose undue pressure within an organization amongst its employees and membership. Regardless of whether an executive team is compensated at, above or below market, the end-user of the information is given the opportunity to assess the fairness of compensation without comparative data within the industry or geographic region for similar management positions.

If the NCUA persists in requiring the disclosure of executive compensation, it is incumbent upon the regulatory authority to provide appropriate leeway and guidance in providing pertinent information for the member credit unions to evaluate.

16. The agency is also examining whether to establish a category of “outside directors” (persons who are not officers of the corporate, officers of member credit unions, and/or individuals from outside the credit union industry). Do you believe this change would be appropriate? Please explain in detail.

It is appropriate for CCUs to have seated outside directors with some limitations. Outside directors should be limited as to the small percentage of total board seats. It should not exceed a majority of the Board seats. Outside directors should possess the same minimum qualification requirements and ongoing educational requirements as other board members. Additionally, outside directors must achieve a comprehensive understanding of the credit union industry as well as the mission and values of the credit union for whom the director will attempt to serve.

CCU's board seats should be regulated to ensure that at least a majority of the seats should be occupied by individuals representing member credit unions. Member credit unions should possess appropriate level of oversight/governance as their membership capital is subject to the strategies and business direction and risk profile of the CCU in their overall business model.